

Tax Incentives for Charitable Giving in the Tax Cuts and Jobs Act (H.R. 1)

November 17, 2017

Provisions in the Tax Cuts and Jobs Act (H.R. 1) would decrease the tax incentive for charitable giving. Under current law, taxpayers [itemizing deductions](#) can deduct contributions made to charitable organizations. Generally, the deduction is limited to 50% of adjusted gross income (AGI), although there are [lower AGI limits for certain types of non-cash gifts and for gifts to certain types of recipient organizations](#).

H.R. 1 would decrease the tax incentive for charitable giving by substantially reducing the number of taxpayers itemizing deductions. Specifically, the standard deduction would be nearly doubled, causing fewer taxpayers to itemize. Additionally, most other itemized deductions would be repealed, pushing more taxpayers under the standard deduction threshold. Currently, about 29% of taxpayers itemize deductions. Under the proposal, [an estimated 6% of taxpayers would itemize in 2018](#). Only taxpayers that itemize deductions have a tax incentive to give. Lower effective marginal tax rates under H.R. 1 would also tend to reduce the tax incentive to give.

Other provisions in H.R. 1 would also affect the incentive for charitable giving, although these other provisions probably have a much smaller effect. For example, for cash contributions, the limit on giving would be increased to 60% of AGI, which could encourage additional contributions. In [2015, cash contributions averaged 2.4% of AGI across taxpayers with itemized deductions](#). Thus, few taxpayers with cash contributions are likely constrained by the 50% of AGI limitation.

How Would H.R. 1 Change the Incentive to Give to Charity?

One way to look at how much the tax code encourages giving is to use a “marginal tax benefit” metric. The marginal tax benefit of charitable giving can be calculated as the percentage change in tax liability that results from a gift to charity. In other words, if a taxpayer gives \$100 to charity, and tax liability is reduced by \$21 as a result, the marginal tax benefit of the charitable contribution is 21%.

How much the incentive to give to charity changes under H.R. 1 depends on where a taxpayer falls in the income distribution. Under current law, the marginal incentive to give is small for taxpayers in the lower

Congressional Research Service

<https://crsreports.congress.gov>

IN10820

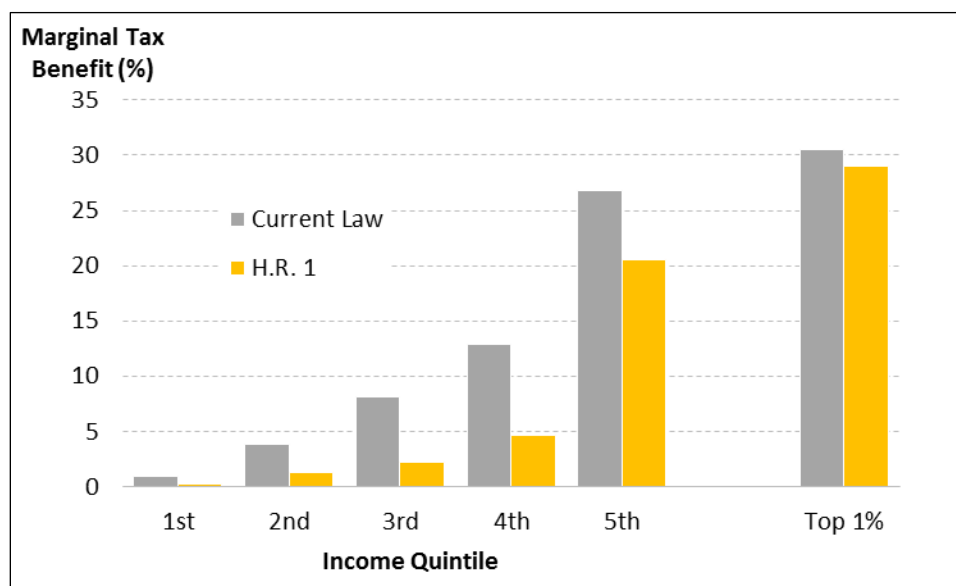
income quintiles (see **Figure 1**). These taxpayers (1) face lower marginal tax rates and (2) are less likely to itemize and thus have a tax benefit from giving. The marginal incentive to give to charity would be reduced for taxpayers in the lowest two income quintiles under H.R. 1, with **lower effective marginal tax rates driving much of this change** (few taxpayers in the lower two income quintiles itemize deductions).

The largest changes in the incentive to give under H.R. 1 appear in the middle and upper-middle portions of the income distribution. For example, H.R. 1 would cause the marginal tax benefit for charitable giving to fall for taxpayers in the fourth income quintile (a cash income range of \$86,100 to \$149,400) from an estimated 12.9% to 4.6%. (The tax savings from a \$100 donation would drop from \$12.90 to \$4.60.)

Lower effective marginal tax rates explain some of this drop, with much of the remainder likely the result of fewer taxpayers itemizing deductions.

For taxpayers at the very top of the income distribution, there is little change in the incentive for charitable giving under H.R. 1. (The estimated marginal tax benefit of giving would fall from 30.5% to 29.0% for taxpayers in the top 1% of the cash income distribution.) While the **effective marginal tax rate would fall for taxpayers in this group**, these taxpayers would be most likely to continue itemizing if the changes proposed in H.R. 1 were enacted (as the highest income taxpayers would be most likely to have itemized deductions that exceed the higher new standard deduction amounts). Taxpayers who continue to itemize under H.R. 1 would continue to have a tax incentive to give to charity.

Figure 1. Estimated Marginal Tax Benefit of Giving, by Income Quintile
2018



Source: Tax Policy Center, [Table T17-0265](#).

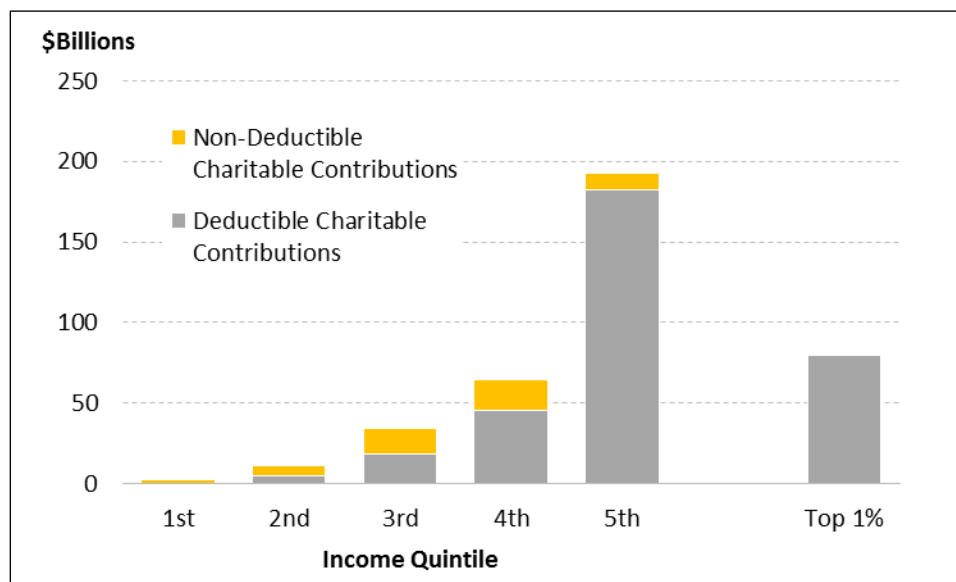
Notes: Income quintile break points are 20%, \$25,000; 40%, \$48,600; 60%, \$86,100; 80%, \$149,400; and top 1%, \$732,800.

What Impact Would H.R. 1 Have on Charitable Giving?

To evaluate how H.R. 1 would affect the amount given to charity, it is helpful to consider (1) total charitable contributions and (2) how responsive charitable contributions are to changes in tax policy. Estimates suggest that in 2018, total charitable contributions will be \$305.7 billion, with \$251.9 billion in contributions tax deductible under current law.

Most contributions to charity are made by middle and upper-middle income taxpayers (taxpayers with the ability to give and to give larger amounts) (see **Figure 2**). In addition to giving more, higher-income taxpayers tend to have a larger proportion of tax deductible contributions, reflecting higher itemization rates among higher-income taxpayers.

Figure 2. Projected Charitable Contributions Under Current Law, by Income Quintile
2018



Source: Tax Policy Center, [Table T17-0265](#).

Notes: Income quintile break points are 20%, \$25,000; 40%, \$48,600; 60%, \$86,100; 80%, \$149,400; and top 1%, \$732,800.

Economists generally believe that the tax incentives for charitable giving increase giving. While there is some debate about how much charitable giving changes for a given tax increase, [a CRS survey of the literature suggest that a price elasticity of about -0.5](#) is probably a reasonable measure of responsiveness. The price elasticity of charitable giving is the percentage change in giving divided by the percentage change in the after-tax price of giving (where the price is 1 minus the tax rate). Higher tax rates lower the after-tax price of giving. (A taxpayer with a 35% marginal tax rate has a tax savings of \$35 for a \$100 charitable contribution, or an after-tax price of giving of 0.65, while a taxpayer with a 20% marginal tax rate has a tax savings of \$20 for a \$100 charitable contribution, or an after-tax price of giving of 0.8.) Using a price elasticity of -0.5, the [Tax Policy Center estimated that charitable giving would fall by an estimated \\$12.3 billion in 2018 under H.R. 1](#).

Changes in the individual income tax are not the only provisions in H.R. 1 that would affect charitable giving. Repealing the [estate tax](#), as proposed in H.R. 1, could also reduce charitable bequests. The [Tax Policy Center estimated that repealing the estate tax would reduce charitable bequests by \\$4 billion in the longer run](#).

Author Information

Molly F. Sherlock
Specialist in Public Finance

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.